

Message Text

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PAGE 01 WARSAW 01498 150831Z

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ACTION EB-07

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FM AMEMBASSY WARSAW

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E.O. 11652: N/A

TAGS: EAIR, PL

SUBJECT: LOT REQUEST FOR FOURTH FREQUENCY

REF WARSAW 1240

1. PANAM REPS HAVE BRIEFED EMBASSY ON RESULTS OF THEIR MARCH 10 MEETING WITH LOT. THEY SAID THAT NO AGREEMENT WAS REACHED AND THAT LOT SEEMED TO BE OPERATING UNDER A LIMITED AND INFLEXIBLE NEGOTIATING BRIEF.

2. LOT OFFERED TO SELL TICKETS FOR ZLOTYS TO CHICAGO ON PANAM IF PANAM WOULD SUPPORT A FOURTH FREQUENCY FOR LOT FOR THE SUMMER OF 1975 AND A THIRD FREQUENCY FOR THE FOLLOWING WINTER. AT THE START OF THE MEETING, LOT ALSO ASKED THAT PANAM AGREE TO SUPPORT A FIFTH LOT FREQUENCY TO CHICAGO BUT THIS WAS DROPPED IN THE LATER STAGES OF THE DISCUSSION.

3. LOT INSISTED THAT THE MINISTRY OF FINANCE WOULD NOT GIVE ITS APPROVAL FOR ZLOTY SALES ON PANAM'S ENTIRE ROUTE SYSTEM BECAUSE THIS WOULD DRAIN HARD CURRENCY FROM POLAND. PANAM REPLIED THAT THE DRAIN WOULD NOT BE SIGNIFICANT.

4. PANAM TOOK THE POSITION THAT POLAND MUST FULFILL ITS OBLIGATIONS UNDER THE BILATERAL AGREEMENT AND THE ACCOMPANYING EXCHANGE OF NOTES BEFORE PANAM WILL SUPPORT THE FOURTH FREQUENCY REQUEST. PANAM NOTED THAT AEROFLOT, ACTING AS PANAM'S AGENT IN LIMITED OFFICIAL USE

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PAGE 02 WARSAW 01498 150831Z

THE SOVIET UNION, IS ALLOWED TO SELL TICKETS FOR RUBLES ON

PANAM'S ENTIRE ROUTE SYSTEM. MOREOVER PANAM WILL SOON BE NEGOTIATING AGREEMENTS WITH HUNGARY, YUGOSLAVIA, AND CZECHOSLOVAKIA AND IT WOULD NOT WANT THE POLISH AGREEMENT TO GIVE THE OTHER COUNTRIES A PRECEDENT FOR LIMITING LOCAL CURRENCY SALES.

5. NEVERTHELESS, PANAM TOLD LOT THAT IT WOULD SETTLE FOR LOT'S AGREEMENT TO SELL TICKETS FOR ZLOTYS ON PANAM'S ENTIRE US ROUTE SYSTEM. PANAM TOLD LOT THAT, AS MATTERS STAND NOW, A PASSENGER MAY PURCHASE A TICKET FOR ZLOTYS ONLY ON FLIGHTS ORIGINATING IN WARSAW AND ONLY AS FAR AS THE PASSENGER'S FIRST STOPOVER. A PASSENGER WHO MAKES A STOPOVER IN COPENHAGEN FOR INSTANCE AND THEN CONTINUES ON TO NEW YORK ON PANAM MAY PURCHASE ONLY THE WARSAW-COPENHAGEN PORTION OF THE TICKET FOR ZLOTYS. LOT REFUSED TO DISCUSS THIS ISSUE, SAYING THAT IT WAS NOT A REAL PROBLEM. THE PANAM REPS ADMITTED TO EMBOFFS THAT THE STOPOVER SITUATION IS NOT A MAJOR PROBLEM NOW, BUT SAID IT WOULD BECOME ONE THIS SUMMER WHEN PANAM BEGINS FLYING TO THE US VIA FRANKFURT.

6. LOT ALSO CONTENDED THAT IT IS LOSING HARD CURRENCY ON THE WARSAW-NEW YORK ROUTE. ITS HARD-CURRENCY REVENUES WERE \$1.1 MILLION LESS THAN ITS HARD-CURRENCY EXPENDITURES IN 1974. PANAM RESPONDED THAT SOME PART OF THE ZLOTY TICKET SALES REPRESENTS HARD-CURRENCY REVENUES TO POLAND. US RESIDENTS WHO WANT TO PAY FOR A TICKET FOR A POLISH RESIDENT CAN DO IT MORE CHEAPLY BY TRANSFERRING THE DOLLARS TO POLAND, WHERE THE POLISH RESIDENT CAN CONVERT THE DOLLARS TO ZLOTYS AND PURCHASE HIS OWN TICKET. LOT SAYS THAT THE POLISH MINISTRY OF FINANCE INSISTS THAT LOT'S ZLOTY SALES CANNOT BE CONSIDERED IN EVALUATING THE COMPANY'S FINANCIAL RESULTS.

7. THERE WAS SOME DISCUSSION OF POSSIBLE POOLING ARRANGEMENTS. LOT INQUIRED WHETHER IT WOULD BE POSSIBLE FOR IT TO PARTICIPATE IN SOME WAY IN PANAM'S WARSAW-CHICAGO TRAFFIC WITHOUT ACTUALLY ACQUIRING LANDING RIGHTS IN CHICAGO ITSELF. PANAM SAID IT HAD BEEN AUTHORIZED TO EXPLORE WITH AEROFLOT THE POSSIBILITY OF POOLING ARRANGEMENTS, BUT THAT NO AGREEMENT HAD BEEN REACHED. APPARENTLY LOT DID NOT SPECIFICALLY REQUEST THAT PANAM OBTAIN CAB PERMISSION TO EXPLORE POOLING ARRANGEMENTS LIMITED OFFICIAL USE

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PAGE 03 WARSAW 01498 150831Z

MENTS ON THE WARSAW-US ROUTE.

8. COMMENT: PANAM APPEARS TO BE IN SOMETHING OF A QUANDARY. THEY FEEL IT WOULD BE A MISTAKE TO SETTLE FOR ANYTHING OTHER THAN THE POSSIBILITY OF LOCAL-CURRENCY SALES ON THEIR ENTIRE US ROUTE NETWORK BECAUSE OF THE BAD PRECEDENT IT WOULD SET FOR NEGOTIATIONS WITH OTHER EASTERN EUROPEAN COUNTRIES. ON THE OTHER HAND, THE ZLOTY SALES TO CHICAGO WHICH LOT HAS OFFERED

CLEARLY REPRESENT THE MOST IMPORTANT NEAR-TERM OBJECTIVE FOR PANAM FROM A FINANCIAL POINT OF VIEW. AS OUR DISCUSSION WAS ENDING, WE SUGGESTED TO PANAM THE POSSIBILITY OF SOME ARRANGEMENT WHEREBY LOT WOULD FORMALLY AGREE TO SELL FOR ZLOTYS ON THE ENTIRE ROUTE NETWORK WITH THE UNDERSTANDING, PERHAPS BASED ON A LETTER FROM LOT TO PANAM WHICH WOULD NOT REQUIRE A REPLY, THAT SUCH SALES TO DESTINATIONS OTHER THAN NEW YORK AND CHICAGO WOULD BE LIMITED TO SOME SPECIFIC ANNUAL DOLLAR FIGURE. PANAM OFFICIALS' REACTION WAS THAT THIS MIGHT POSSIBLY PROVIDE A WORKABLE SOLUTION TO THE PRESENT IMPASSE.

9. AS MATTERS STAND, HOWEVER, PANAM PLANS TO GO AHEAD WITH SEVEN FREQUENCIES FOR THE SUMMER SEASON AND WILL NOT RECOMMEND A FOURTH FREQUENCY FOR LOT. WE CAN EXPECT TO RECEIVE SOME RATHER LOUD COMPLAINTS FROM THE POLISH SIDE IN THE WEEKS AHEAD.
DAVIES

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